



News Release

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IRS REDUCES BURDEN FOR FAMILY DAY CARE PROVIDERS

WASHINGTON – The Internal Revenue Service announced today that family day care providers may now choose to use a standardized rate to claim the deduction for meals provided to children in their care instead of keeping detailed records and receipts of food purchased for use in their business. Use of the standardized rate will significantly reduce the recordkeeping burden of family day care providers.

The change means day care providers could save an estimated 10 million hours by using the standard meal rate. If these providers decide not to use the rates, they can continue to take the deduction based on the actual cost of the meals.

The guidance, detailed in Revenue Procedure 2003-22, is effective for tax years beginning after December 31, 2002. However, if taxpayers used the standard meal rates (USDA Tier I rates) for prior taxable years to claim their deductible food costs, then the IRS will not raise the issue of the amount of the deduction claimed in the prior years.

The Red Leaf Institute, a non-profit organization committed to improving the quality of family care, submitted the idea of allowing child care providers to use a standardized meal deduction to the IRS Industry Issue Resolution (IIR) Program. This program is designed to address issues that are frequently disputed or burdensome.

The IIR Program was successfully piloted in 2001 for large and mid-sized businesses and then expanded to businesses of any size in 2002. It is estimated that the program has saved millions of hours in taxpayer burden.

The new rates for family day care providers follow the United States Department of Agriculture's Child and Adult Food Care Program, Tier I rate in effect each December 31 of the year preceding the current calendar year. The current rate will soon be available on the small business section of the IRS Web site: www.irs.gov/smallbiz by clicking on "industries/professions" in the contents column and choosing "child care." The rates can also be found on the USDA site at www.fns.usda.gov/cnd/care by clicking on "Program Basics" and then selecting the notice under CACFP Reimbursement Rates for the appropriate year.

The rates are adjusted by the USDA each July 1st. The rates in effect for calendar year 2003 for most of the United States are: breakfast - \$0.98; lunch or dinner - \$1.80; and snack - \$0.53. (Hawaii and Alaska have different rates.)

(more)

Revenue Procedure 2003-22 covers family day care providers, defined as taxpayers engaged in the trade or business of providing family day care. Family day care is defined as care provided to children in the home that is non-medical, does not involve a transfer of custody and is generally less than 24 hours. The standard rate is only available for children in the provider's care who:

- are minors under parental control and not self supporting,
- are not full- or part-time residents of the home, and
- whose care is not provided for solely personal reasons.

The standard rate is allowed for up to one breakfast, one lunch, one dinner, and three snacks per day, per child, provided the meals and snacks are actually purchased and served. Providers may use the rate whether or not licensed, registered or otherwise regulated by the state or locality in which the care is provided.

In order to use the standard rate, providers must maintain records to substantiate their computation of the total amount deductible. The records must include:

- the name of each eligible child,
- dates and hours of attendance in the family day care, and
- the type and quantity of meals and snacks served.

A sample of an acceptable log is an appendix to the revenue procedure.

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